

2 Payment System

During the past few years, SBP took a number of development initiatives to promote digitization of the payments landscape in the country. These initiatives are primarily aimed at development of digital payment platforms, provision of a conducive regulatory environment for the industry and promotion of innovative and convenient digital payment instruments in the economy. As a result, the payments industry in Pakistan continued to show a healthy growth, both in terms of volume and value of transactions conducted during FY19.

A detailed analysis of the key digital payment indicators and initiatives of SBP to promote payment systems and digital financial services in the country is mentioned as under:

2.1 Performance of Payment Systems during FY19

During FY19, Pakistan's core payment systems infrastructure remained operationally resilient and processed 1,337.6 million transactions (valued at Rs 602.8 trillion) through various payment channels that include e-banking (65 percent), paper-based instruments (34.8 percent) and PRISM (0.2 percent). The e-Banking channels, comprising of Real time online branches (RTOB), ATMs, e-Commerce, Internet, Mobile Phone and Call Centers/ IVR Banking, collectively processed 869.8 million transactions valuing Rs 58.8 trillion. These transactions showed significant growth of 15 percent and 24.1 percent in both volume and value of transactions over the year. Banks have expanded their network to 16,864 branches during FY19 and 15,481 of such branches provided real time online banking services to their customers, by processing 187.4 million transactions valuing Rs 49.4 trillion. In total e-Banking transactions, RTOBs have the highest share of 84 percent in value whereas ATM transactions have the highest share (60.2 percent) in volume.

As at June 30, 2019, 14,722 ATMs and 56,911 POS machines processed 523.3 million and 72.4 million transactions valuing Rs 6,399.6 billion and Rs 366.2 billion respectively during FY19. Total number of payment cards issued in Pakistan reached 42.2 million which include Debit Cards (58.8 percent), proprietary ATMs Cards (20.1 percent), Credit Cards (3.8 percent), Pre-Paid cards (0.5 percent) and Social Welfare Cards (16.8 percent). During FY19, 607.8 million transactions valuing Rs 6,767 billion were processed involving these payment Cards, of which Debit Cards have the highest share of 81.2 percent in volume and 85.5 percent in value. Further, ratio of on-us versus off-us ATM cash withdrawal was 62:38 by volume and 68:32 by value showed that customers generally prefer to withdraw cash from their own bank's ATMs.

Internet Banking services have been offered by 27 banks to 3.3 million Internet Banking users registered with banks. During FY19, 39.7 million transactions amounting Rs 1,722.2 billion were processed through Internet Banking. Moreover, 26 banks are providing Mobile Phone Banking facility with 5.6 million registered users. These users processed 41.1 million transactions involving Rs 866.8 billion using Mobile Phone Banking Apps.

PRISM system has 45 direct participants, which include 32 Banks, 2 Specialized Banks, 2 MFBs, 8 DFIs and 1 non-bank i.e. Central Depository Company. During FY19, PRISM processed 2.5 million

transactions amounting Rs 398.2 trillion. Both the volume and value of its transactions showed a significant growth of 47.2 percent and 10.3 percent respectively. Highest share in PRISM's transactions was contributed by third party customers transfers (84.1 percent), of which 38.1 percent was related to home remittances. As per value of transactions, Government securities' settlement has the highest share of 69 percent followed by interbank fund transfers (19.2 percent), 3rd Party fund transfers (7.9 percent) and settlement ancillary payments (3.9 percent).

2.2 Regulatory Developments in Payment Systems during FY19

In line with SBP's strategic objective of building robust payment system, SBP has been undertaking various initiatives aimed at transforming the infrastructure and regulatory environment in the country. To achieve the said objective, SBP adopted a multi-pronged strategy and initiated projects in four key broad areas which include:

- 1) Developing modern payments infrastructure
- 2) Providing an enabling regulatory environment for banks and non-banks,
- 3) Ensuring security of digital payments channels and consumer protection
- 4) Promoting new technologies

Key achievements to strengthen and promote Payment Systems regulatory regime are listed below:

2.2.1 Developing Modern Payments Infrastructure

With the emergence of new enabling technologies, retail payment systems are being transformed to enable the public to pay and receive money in real time. SBP initiated implementation of the Micro Payment Gateway with the support from Bill & Melinda Gates Foundation/ Karandaa. This Gateway will offer swift retail payments with advanced Application Programming Interfaces (APIs) and directory services, which will simplify the payment mechanism in the country. With the implementation of this critical retail payment infrastructure, SBP expects rapid digitization of public/private collections and payments.

2.2.2 Providing an Enabling Regulatory Environment for Banks and Non-banks

During the past few years, payments industry has witnessed a shift from traditional bank led model to non-bank model. Banks especially larger banks have been struggling in extending their outreach to retail customers due to which non-banking institutions have rapidly innovated with the help of technology to provide low cost, convenient to access and innovative payment instruments to retail customers.

SBP while realizing that current banking sector is inadequate for serving digital payment needs of the customers have issued regulations for Electronic Money Institutions (EMIs). The objective of issuing these regulations is to provide a conducive regulatory framework to technology enabled non-banking entities (Fintechs) to provide innovative, user-friendly and cost-effective payment services to consumers using prepaid instruments like digital wallets, prepaid cards, contactless payment instruments including wearables etc. It is expected that these EMIs will be instrumental in offering innovative payment instruments that will digitize cashless payments like merchant checkouts, e-commerce, government receipts, bill payments, cross border remittances, etc.

2.2.3 Ensuring Security of Digital Payments Channels and Consumer Protection

Advancement of technology has enhanced convenience to consumers but has also posed new threats and targeted attacks on systems across jurisdictions. These attacks compromise the security and privacy of customers' data and cause massive disruption to the continuity of businesses. SBP during the last few years, has issued a number of instructions and strengthened its oversight regulatory framework to ensure safety and security of digital payment systems. As a result, significant progress was made by the payments industry in Pakistan on the adoption of Euro Visa Master (EMV) chip based cards and other standards like PCI DSS and 3D Secure etc. SBP advised banks to carryout extensive compromise assessment and penetration testing to identify potential weaknesses in their Alternate Delivery Channels and payment systems, deploy real-time fraud monitoring tools and alert mechanisms and monitor usage/ activity on 24/7 basis. SBP mandated banks to activate/ reactivate online banking services after biometric verification and offer free of cost transaction alerts to their customers through both SMS and email for all international and domestic digital transactions.

Banks have been advised to limit their cross border exposure by setting reasonable limits with international payment schemes. SBP is also encouraging banks to issue domestic payment scheme card (PayPak) to their customers, who do not wish to use them abroad. Approximately, 2 million PayPak cards have been issued to date.

2.2.4 Other Initiatives for Promoting New Technologies

SBP has taken a number of initiatives to facilitate digitization of payments at retail level. Major milestones include collection of taxes and duties by FBR, Customs and Punjab Revenue Authority using ADCs. Further, SBP facilitated SECP in implementing its mandate that requires payments of its fee and dividends to customers electronically.

SBP also facilitated operationalization of online collection of donations in Supreme Court of Pakistan and Prime Minister of Pakistan Diar Bhasha and Mohmand Dam Fund account through payment cards. Moreover, banks were advised not to charge any transaction fee (Interchange, Merchant Discount Rate etc.) on payments made to Federal and Provincial Governments.

2.3 Developments in Government Payments

The government payments are an important component of public finance management in terms of its impact on different sectors of the economy. An efficient and transparent government payments system has direct bearing on the public service delivery, public sector procurement, social security net and good governance. The SBP is providing all the necessary support and facilitation to the federal and provincial governments for development of efficient, reliable, simple and transparent IT based payment system solutions. The objective is to bring the much-needed efficiency and transparency in the government payments. The key initiatives undertaken by the SBP include online collection of government taxes and duties through ADCs and implementation of e-cheque reconciliation.

2.3.1 Collection of Government Taxes and Fees through ADCs

After successful implementation of the ADCs for collection of FBR duties and taxes in FY18, SBP extended the facility for collection of Government of Punjab (GoPb) tax and non-tax receipts. A tripartite agreement was signed on December 16, 2018, by SBP, GoPb and 1-Link to develop the

facility for collection of GoPb receipts through Punjab Information Technology Board. Under the scheme, the GoPb has been added as biller in the Bill Payment System of 1Link. The taxpayers can now pay around 13 different taxes and duties of GoPb through e-Pay Punjab application or website by generating a unique Payment System Identity (PSID) number. The taxpayers then access the biller module of his/her bank through internet banking, ATMs or banks' mobile applications, fetch relevant details by entering the PSID number to pay off his/ her tax liability.

Subsequently, the 1-Link system generates a message for the relevant tax department confirming tax receipt against the particular PSID. The online tax collection system provides end-to-end solution for generating PSID, payment of tax, its settlement with SBP and subsequent recording and reconciliation with the relevant tax administration. The SBP also intends to extend this facility to other provincial governments.

2.4 Ensuring Quality of Banknotes and Efficiency of Currency Management System

SBP Vision 2020 envisions availability of clean and good quality banknotes with state of the art security features and automation of currency management system. In this context, the Bank initiatives included implementation of Currency Management Strategy, introduction of latest security features in banknotes and exploring innovative techniques to improve the quality and durability of banknotes.

2.4.1 Implementation of Currency Management Strategy

SBP introduced currency management strategy in 2015 to automate related operations. With the successful implementation of the strategy, all commercial bank branches and ATMs throughout the country are disbursing machine authenticated banknotes of Rs 100 and above denominations. The scope of the strategy would be enhanced to include processing of Rs 50 banknotes by January 2020. It is worth mentioning that banks have established 797 Cash Processing Centers, equipped 5,971 Standalone Branches with authentication machines and made arrangements for 586 linked branches at end June 2019.

2.5 The Way Forward

To accelerate digitization of payments landscape in the country, SBP would focus on two major use cases; Government-Citizen payments and collections and digitization of merchants and invoice based payments. These two use cases would ensure provision of quick and efficient government services to customers and bring efficiency in the business sector. In pursuance, SBP will provide interoperable retail payments infrastructure and issue regulations aimed at on-boarding merchants, especially small and informal ones into formal payments landscape to enable them to use low cost and innovative payments instruments like digital wallets and QR codes for accepting payments.